

MIKE SPANO  
MAYOR

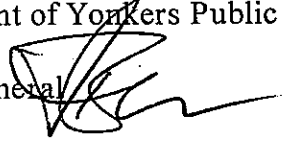
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CITY OF YONKERS  
DEPARTMENT OF INSPECTOR GENERAL

TO: Hon. Mike Spano, Mayor  
Hon. Liam J. McLaughlin, Council President  
Honorable Members of the Yonkers City Council  
Dr. Michael Yazurlo, Superintendent of Yonkers Public Schools

FROM: Brendan J. McGrath, Inspector General 

DATE: May 30, 2014

RE: Budget Overstatement of State Aid – Yonkers Public Schools

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The Department of Inspector General commenced an investigation and review of the Yonkers City School District (District) financial operations stemming from reports that the District erroneously projected State Aid revenue in fiscal year 2012/13 and again in fiscal year 2013/14.

By letter dated January 29, 2014 Mayor Mike Spano requested that this Office: (1) Conduct a thorough examination of the process and actions which led to the overstatement of New York State aid to the District in the amount of \$26.9 million for fiscal year 2012/13 and \$28.1 million for fiscal year 2013/14, which resulted in a net budget deficit of approximately \$55 million; and (2) Provide recommendations for administrative reforms within the District in order to prevent fiscal errors or omissions of this magnitude in the future.

**Executive Summary**

In January, 2014, it was discovered that the Yonkers City School District erroneously projected \$55 million in State Aid revenue in fiscal years 2012/13 and 2013/14. An in depth review of the School District's budgets and the finance department revealed that the miscalculation of State revenue was the result of human error. It was further revealed that the human error resulted from a prolonged systemic failure of the District to properly manage its finances, particularly as it related to the preparation and monitoring of its budget. That failure was both foreseeable and preventable as demonstrated by numerous recommendations from the District's own external auditors. No criminal activity was uncovered as a result of this investigation but a series of reforms have been

recommended in an effort to address the failed management and organizational structure of the Yonkers Public Schools. These reforms and other sensible measures are needed to regain the trust of the Yonkers taxpayer and those that count on the Yonkers Schools to provide a meaningful education.

### **Scope of Review**

Pursuant to the Yonkers City Charter §C-7-2(D), the jurisdiction of the Department of Inspector General, “shall extend to any agency, officer, or employee of the city, or any person or entity doing business with the city, or any person or entity who is paid or receives money from or through the city or any agency of the city.” Pursuant to that statutory jurisdiction, the Department of Inspector General is empowered to undertake investigations of the Yonkers City School District.<sup>1</sup>

The IG subpoenaed and received budget related documents from the District for fiscal years 2012/13 and 2013/14 as well as e-mails from the individuals who were involved with or had input into the preparation, review or presentation of the District budgets for those years. The IG also interviewed District Financial Department staff responsible for the preparation, review and presentation of the District budgets for 2012/13 and 2013/14, including current and former members of the Yonkers Board of Education. Also interviewed as a part of this investigation were members of the City of Yonkers’ Division of Budget and Finance Department as well as the current and former external auditors for the District.

### **Background**

In order to comprehend the budgeting error that caused the District’s deficit, it is important to understand two related statutory/budgetary concepts with respect to school district funding in the State of New York.

In fiscal year 2009/10, state aid to local school districts was reduced based on a formula known then as the Deficit Reduction Assessment (eventually to be known as the Gap Elimination Adjustment). In 2011/12, Gap Elimination Adjustment (GEA) was made a permanent part of the state aid allocations. The purpose of the GEA was to reduce state support for local school districts in order to close the State’s budget deficit. At the same time the GEA was enacted, the State Legislature and the Governor froze school district foundation aid (the largest category of state driven aid) to 2008/2009 levels. The GEA and the frozen aid were partially offset by funds from the State Fiscal Stabilization Fund, which was a part of the American Recovery and Rehabilitation Act of 2009 (ARRA). These funds were available roughly through 2011/2012 school fiscal years.

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<sup>1</sup> It should be noted that the School District has in the past challenged the authority of the Department of Inspector General to undertake investigations with respect to the School District based on the argument that the school district is only answerable to the State of New York pursuant to the Education Law. That argument failed before the New York State Supreme Court, See, Decision and Order, Index No. 22237/2009, dated July 1, 2010.

By way of background, in 1991, New York State authorized school districts to utilize what has commonly been referred to as Chapter 1 Accrual (also referred to as Chapter 1 Advance). This accrual is a mechanism to assist districts affected by mid-year cuts in state aid. This accrual is not a cash advance but an accrual provision to permit school districts to borrow against their next year state aid payment in order to maintain a balanced budget. It works by accruing in June revenue from the following September. Districts are made whole to the extent that the legislature reauthorizes the annual accrual provision.<sup>2</sup> In order to offset the effects of GEA coupled with the frozen foundation aid and the elimination of ARRA funds, the State, in 2010/11, began to authorize additional the Chapter 1 accruals.

### **Yonkers City School District and the GEA**

Yonkers City School District initially took advantage of the Chapter 1 accrual to offset the reduction in state aid pursuant to the GEA in 2010/11 fiscal year (although, as noted the District had been taking advantage of the Chapter 1 accruals since its inception). Due to the fact that the New York State Budget was not passed until August, 2010, it was necessary for the Governor and the Legislative leaders to communicate to the New York State Comptroller that certain language would be included in the State budget to permit the City of Yonkers to accrue certain funds in order to have their budget certified pursuant to the Fiscal Agent Act.<sup>3</sup> Attached hereto as **Exhibit A** is the Application and Claim for Apportionment Pursuant to the Laws of 2011 (also known as form SA-1), which the District files with the State Education Department on an annual basis. Line 3 on the form indicates the Net GEA for 2010/11 in the amount of \$15,803,033. This is the permissible amount that the District may budget for in the 2010/11 school year. Annexed hereto as **Exhibit B** is the Yonkers Public Schools 2010/11 Adopted Budget – Consolidated Budget Highlights showing the budgeted Chapter 1 State Aid Advance as \$15,803,033. The District's fiscal year 2010/11 had no issue with respect to a budget overstatement of Chapter 1 accruals.

In the 2011/12 fiscal year the District filled out form SA-1 (4/12), annexed hereto as **Exhibit C**, whereby the State, pursuant to Chapter 58 of the Laws of 2011, had authorized a cumulative apportionment of \$49,473,950 (found on line 5), including the GEA of \$28,116,478 (found on line 4). Based on the fact that the District had taken the full \$15,803,033 in fiscal year 2010/11, they were permitted to accrue only the \$28,116,478 authorized by Chapter 58 of 2011. According to the Consolidated Budget Highlights for the District's 2011/12 adopted budget, annexed hereto as **Exhibit D**, the District properly projected \$26,956,956 in Chapter 1 State Aid Advance, which was \$1,159,522 less than the maximum authorized pursuant to Chapter 58 of 2011. Again, in fiscal year 2011/12 the District properly budgeted the Chapter 1 accrual.

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<sup>2</sup> Upon its inception, the City of Yonkers has relied on the continuing reauthorization.

<sup>3</sup> See, Chapter 488 of 1976 of the Laws of New York State.

In the 2012/13 fiscal year the District filled out form SA-1 (4/13), annexed hereto as **Exhibit E**, however, unlike the two previous SA-1 forms that the District completed, the SA-1 (4/13) did not have a line for the accrual of the current fiscal year GEA, i.e. 2012/13. This would appear to mean that the State did not authorize another year to increase the accrual or “spin up” of the GEA. The cumulative apportionment remained at \$49,473,950, meaning the District could only accrue what remained from the previous fiscal year; \$1,159,522. The 2012/13 Consolidated Budget Highlights (unrevised), annexed hereto as **Exhibit F**, shows a revenue projection of \$26,956,956, the same amount that was properly accrued and budgeted in the District’s 2011/12 Consolidated Budget Highlights (see, Exhibit D). To exacerbate the problem, once the New York State Comptroller failed to certify the City’s 2012/13 budget due to issues involving the use of the District’s fund balance, among other things, the District proposed using what it perceived to be an additional \$1,159,522 in Chapter 1 Accruals as demonstrated by the revised 2012/13 Consolidated Budget Highlights annexed as **Exhibit G** for a total Chapter 1 Advance in fiscal year 2012/2013 of \$28,116,478.

Having failed to realize the budgeting error in fiscal year 2012/13 and prior to the preparation of the 2013/14 budget, the District again made the same mistake. The form SA-1 (4/14), annexed hereto as **Exhibit H**, like the forms before it, were filled out correctly from an administrative perspective (in fact, the first 5 lines of the form are filled out by the State Education Department), i.e. there would be no indication from the form itself that the District had improperly projected revenue. But the fact is that the District continued to budget the incorrect revenue as demonstrated in their 2013/14 Consolidated Budget Highlights, annexed as **Exhibit I**. They continued to use an annual amount of \$28,116,478 even though the authorizing legislation, Chapter 57 of the Laws of 2013, failed to increase the cumulative appropriation for “net GEA” after fiscal year 2011/12. The District’s cumulative appropriation was capped at the \$49,473,950, which had been fully utilized as demonstrated above.

The District’s budgeting error resulted in a net deficit of \$55,073,434.

### **Uncovering the Error**

While there may have been signs or outright warnings of the budgeting error (discussed in further detail below), the first substantive realization came when the District began of the process of submitting its annual financial report (ST-3) to the New York State Department of Education. The ST-3 was due to the State Department of Education on October 25, 2013 and covered the finances of the district for the 2012-13 fiscal year. Based on the fact that the initial erroneous budgeted State Aid Advance would have been received in September of 2013, this is the first time the District would have been made aware of the error. As such, the \$26,956,956 error was discovered as a result of an unbalanced financial report discovered in late October, 2013 for fiscal year 2012/13.

Desmond Barnett, the District's accountant stated that there was a discrepancy in the revenue recorded versus revenue budgeted by the District. Initially, it was not clear whether the discrepancy was the result of an accounting or budgeting issue, so the District's finance team continued to work to resolve the issue. Mr. Barnett testified that the finance team had confirmed a revenue error had occurred in late November 2013 and it was at that time that Mr. Barnett states that he informed Mr. Bracchitta, the District's Chief Administrative Officer, whom he believed would have informed the Superintendent at that time.

Ultimately, the District contacted their previous external auditors, the Bonadio Group, to ask them to review the discrepancy.<sup>4</sup> Terence Phillips, Partner at the Bonadio Group reviewed the State Aid reports for the Districts and determined that the issue must have been a budgeting error. That determination came some time after January 1, 2014. This Office inquired as to whether the external auditors were consulted prior to making the erroneous budget revenue projections and the District staff agreed that it was a failure on their part not to have done so. In fact, there were internal communications among District staff suggesting that the external auditors may be of assistance with respect to the Chapter 1 accruals. A simple question directed to the financial experts employed by the District could have averted the initial error.

Finally, the Superintendent reported the budgeting error to the Mayor at which point corrective actions were undertaken to the extent possible, as discussed further below. It was at this time that the Mayor requested that the Office of Inspector General investigate the matter.

### **Cause of the Error**

Upon interviewing Jane Farrell, the budget analyst who is responsible for State Aid projections testified that she lacked the resources necessary to effectively navigate the State legislation and related documents. She stated that she did not realize that Chapter 57 of 2012 did not contain GEA for 2012/2013, this despite the fact that she had contact with staff of the Conference of Big 5 School Districts on April 12, 2012, whereby the Chapter 57 language was forwarded to her (**Exhibit J**). Ms. Farrell was working on the presumption that the Chapter 1 Advance for 2012/2013 remained the same as the previous year. A reading of the legislation reveals that the Legislature only intended to include the 2010/2011 net GEA and the 2011/12 net GEA and did not include the 2012/13 school year.

There was also documentation prepared on an annual basis by the Conference of Big 5 School Districts, which discussed the New York State budget and its affect on the Big 5 School Districts. The 2012 review, dated March 29, 2012, and sent to various District employees, stated, under the heading of "One-Year Extensions" that Chapter 1 Advances would be "up to the same amount as last

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<sup>4</sup> Various District staff were asked why the current external auditors, O'Connor, Davies, et al. were not contacted and there was no discernable reason given.

year.” While Ms. Farrell indicated that this language was vague, she made no attempt to clarify the meaning of the language with the Conference of Big 5 School Districts or the District’s external auditors. She did testify that she brought the issue up with Mr. Bracchitta during the budget preparation for fiscal year 2012/13, but it was decided to err with the interpretation that resulted in the greater revenue. Upon interviewing Mr. Bracchitta, he denies ever being advised of the fact that the 2012 legislation did not authorize an additional accrual of the 2012/13 net GEA.

Ms. Farrell was asked why the error did not reveal itself in September of 2013 when the District would have received the 2012/13 payment. She responded that the District did not utilize an accrual based accounting system and rather booked all revenue at year-end. Obviously, this was going to be an issue going forward because the 2013/14 District budget would have also been prepared and adopted prior to year end 2012/13.

### **The Continuing Error**

Without an understanding of why the District was not authorized to accrue more than \$1,159,522 in fiscal year 2012/13, it is foreseeable that the error would continue. To categorize the continuing error as a mere oversight is an understatement.

In the fall of 2012, the Conference of Big 5 School Districts hosted a conference in Albany, whereby representatives from the Big 5 districts would present to the Division of Budget their needs for the upcoming fiscal year. Georgia Asciutto is the Executive Director of the Conference of Big 5 School Districts and the individual who coordinated the conference. She stated that she reviewed the District’s 2012/13 budget and immediately questioned the Chapter 1 Accrual in the amount of \$28,116,478. According to Ms. Asciutto, she questioned Jane Farrell, with whom she had provided a good deal of technical assistance over the years, as to how the District arrived at the \$28,116,478 figure. Ms. Farrell responded that Desmond Barnett directed her to use that number, although Ms. Farrell denies having discussed the 2012/13 budget with Desmond Barnett. Ms. Farrell stated that her revenue numbers were discussed directly with Mr. Bracchitta.

The State adopted a 2013/14 budget and once again did not provide for additional 2012/13 or 2013/14 net GEA accruals that had been previously authorized in the 2010/11 and 2011/12 budgets. Failing to realize this or seek further clarification, the District projected another \$28,116,478 as a Chapter 1 State Aid Advance. Ms. Farrell’s explanation was the same as the prior year. Once again, however, the Conference of Big 5 School Districts issued a Memorandum dated April 3, 2013, stating that the Chapter 1 Advances were extended “up to the same amount as last year” which, as stated above, was the same as the previous year. The fact was that no additional increases were authorized after the 2011/12 budget year.

## **Management and Oversight**

During the course of this investigation, it became clear that, due to a confluence of events, some foreseeable and some not, the District's finance department was not managed or staffed in a way that could have prevented the overstatement of state aid from originally occurring and/or continuing. Put simply, this error was foreseeable and preventable. Both the Board of Education and the School District failed to heed the advice designed to prevent such an error. To be sure, there are multiple findings from the District's external auditors that sounded the alarm. Also, there was a complete failure to staff the finance department appropriately. Not just the staffing levels, but also the necessary experience.

For the fiscal year ending 2010, the District's external auditors, Bonadio & Co. made a number of critical findings. First, they cited lack of sufficient resources with proper experience and competence to oversee authorization and reporting of the District's financial transactions. This finding supports the most critical aspect of this Office's findings. Additionally, the report cited,

During our audit, we noted that the School District prepares its interim financial statements for its Governmental funds on a cash basis of accounting. It is our understanding that the School District's Administration and Board rely on these statements to address ongoing business issues, without consideration for the necessary adjustments required to present interim financial statements on the modified accrual basis of accounting.

Annexed hereto as **Exhibit K** are the findings of the 2010 year end report.

The 2011 fiscal year-end report, again from Bonadio & Co., reiterated the District's lack of sufficient resources with proper capabilities and competencies to oversee authorization and reporting of the school district's financial transactions. Once again, the report cited the need for the district to implement a modified accrual basis of accounting. Annexed hereto as **Exhibit L** are the findings of the 2011 year end report.

Failing to heed the recommendations of the external auditor in fiscal years 2010 and 2011, the 2012 year-end report repeated the same findings. In 2012, those findings were elevated to what were termed "material weaknesses" by the external auditor. In all three years, Bonadio recommended that the organizational structure and reporting responsibilities of finance and budget functions continue to be evaluated. Annexed hereto as **Exhibit M** are the findings of the 2012 year end report. This Office finds that the organizational structure of the District's finance department was in complete disarray.

It should be noted that upon interviewing Yvonne Griffin, a newly hired budget analyst for the district, she stated that the system used by Ms. Farrell to track revenue was crude and virtually impossible to tell what had been booked versus what had been actually received. This further demonstrates the auditors concerns.

This Office interviewed Stan Bronski, former Assistant Superintendent for Finance for the Yonkers City School District. Mr. Bronski, who is a CPA and certified school business administrator (SBA) was hired in 2008. Mr. Bronski testified that despite his experience in school district finances, he was marginalized shortly after joining the District. He testified that he had no input in the preparation of the District's budget. Conversely, Mr. Bracchitta and Mr. Barnett both testified that Mr. Bronski was intimately involved in the budget. Upon reviewing e-mail correspondence for 2011-2013, this Office discovered that Mr. Bronski was not included on any e-mail correspondence related to budget preparation. Mr. Bronski attributes this to the fact that he was being phased out by Mr. Bracchitta in favor of Mr. Barnett. Both Mr. Bracchitta and Mr. Barnett agree that Mr. Barnett was being groomed to take over the finance department. Mr. Bracchitta actually testified that the District kept Mr. Bronski on staff longer than they prudently should have. He was quoted as stating, "[w]e had external auditors basically saying that this guy (Bronski) is a liability." He went on to say that the District "worked around" Bronski for the better part of three years. On the other hand, Mr. Bracchitta blamed Mr. Bronski for his failure to appropriately staff the finance department as recommended by the external auditors. Thus, to the extent that various testimony points to Mr. Bronski as the lead in the District's budget preparation and presentation, this Office finds such statements lacking in credibility. Mr. Bronski seems to have been the perfect scapegoat for what can only be described as a wholesale failure of the District to maintain appropriate staffing levels and ensure necessary levels of competency.

More concerning, with respect to the way the District handled the leadership function in the Department of Finance was that Mr. Barnett was effectively being placed in a position for which he did not possess the requisite training or experience. Mr. Barnett's function was to support Mr. Bronski's position and based on the testimony offered to this office he was performing both roles with a staffing level that had raised concerns for the auditors. Mr. Barnett was not a certified school business administrator and had a total of 4 years of school district experience at the time he assumed de facto control of the finance department. There is no question that the organizational structure of the District was in various levels of disarray during the fiscal years in question.

In an effort to compare the Yonkers City School District's staffing levels with an equivalent district, this Office looked at the Syracuse City



School District, which according to the New York State Education Department 2012/13 data, had a student population of 21,069 (versus Yonkers' 25,591). Syracuse's annual budget is approximately \$365 million (compared to Yonkers' \$520). Syracuse's finance department is staffed by 51 individuals while Yonkers employs 31. As of January 2014, Syracuse listed 2 positions as vacant (an Accountant I and a Systems Training Assistant). At the same point in time, Yonkers had vacancies in the following positions: Accountant, Payroll Manager, Budget Manager, Fixed Asset Capital Manager and Assistant Superintendent of Finance. Clearly, the failure to fill these positions resulted in additional stress on the remaining employees, who were already operating at a staffing disadvantage.

It is interesting to note that the Chief Financial Officer of the City of Syracuse School District e-mailed Mr. Bracchitta in April of 2012 to inquire as to the Yonkers City School District's experience with the Chapter 1 Accrual. Specifically, Syracuse was undertaking its due diligence with respect to the actual accounting transactions that Yonkers booked at year end to recognize the accrual. Additionally, Syracuse was looking for a contact from Yonkers' external auditor firm to consult with because Syracuse's firm did not have experience with the Chapter 1 Accrual. In his interview Mr. Bracchitta did not recall receiving the e-mail or any other communication with the City of Syracuse School District. Annexed hereto as **Exhibit N** is the e-mail sent by Syracuse to Mr. Bracchitta.

As noted above, not all events that contributed to the overstatement of state aid were foreseeable. Each individual interviewed from the District cited the implementation of Oracle (financial system) and Ceridian (payroll system) as a burdensome process, which happened to be occurring simultaneous to the budget years in question. Many employees stated that Mr. Barnett, who at the time was acting as the chief of the finance department, appeared to be overwhelmed with the responsibilities of implementing the new systems and performing the additional tasks required of him.

In his interview, Mr. Bracchitta pointed out that the City of Yonkers was made aware of the issue involving the Chapter 1 Advance on May 29, 2013, whereby the City Council's auditor, O'Connor, Davies, et al. presented to the City Council a budget overview, including a reference to "one shots" and advising the Council that if the legislature does not continue the advance, a shortfall would be created. This Office met with representatives of O'Connor, Davies and concludes that the statements made represented a potential future scenario with which the District must have prepared itself.

Statements were also made to this Office that the City of Yonkers may bear some responsibility in reviewing and "signing off" on the School District's budget. In addressing those statements, this Office also met with

the City's Budget Director and Commissioner of Finance on a number of occasions. While the City does receive budget documents from the School District, a review of those documents generally focuses on justifying the amount of money that the City will contribute annually to the School District's budget. In short, funds received by the School District during the year are presumed to be accounted for by the District, especially given the fact that the District usually supplies the budget information with little lead time and detail to review. The City thus relies heavily on the accounting performed and budget projections presented by the District staff. This Office finds that this type of disconnect between the District and the City can only have detrimental consequences.

This Office also conferred with the State Education Department, State Aid Payment Unit, the unit responsible for reviewing the SA-1 forms. The forms are reviewed for correctness and based on information from the State Aid Payment Unit all of the SA-1 forms submitted by the District were correct. As mentioned above, it was the projection of the budget revenue without legislation that caused the error and as further mentioned above, the fact that revenue was only received at year end caused this error to go undetected until the 2012/13 ST-3 was due to the State Education Department.

On February 4, 2014, Mr. Bracchitta submitted his letter of resignation from the position of Chief Administrative Officer of the District. On February 18, 2014, Mr. Pierorazio submitted his resignation from the position of Superintendent of Schools. Dr. Michael Yazurlo, a former Principal in the Yonkers City School District and former Superintendent of the Tuckahoe Public Schools, was named interim Superintendent and has since been appointed to the title of Superintendent of the District.

### **Mitigation Measures**

On January 14, 2014, then Superintendent Pierorazio notified Mayor Spano of the overstatement of State Aid. As a result, the City instituted a number of mitigation measures including the initiation of an inter-municipal agreement (interim IMA) which was authorized by the Yonkers City Council by a unanimous vote on February 11, 2014, and by the Yonkers Board of Education on January 31, 2014. The term of the interim IMA runs from February 3, 2014 through June 30, 2014 with certain termination and extension provisions. The interim IMA, which is annexed hereto as **Exhibit O**, called for the City to, among other things, provide on-site financial management services to the District and make recommendations consistent with best practices.

Furthermore, Mayor Spano sought assistance from the State Legislature and the Governor's office in the form of additional State Aid to

offset the School District's 2-year budgetary shortfall resulting from the overstatement of State Aid. The State responded with a package of financial assistance and reform measures contained in an Article VII budget bill which on March 31, 2014 was signed as Chapter 55 of the Laws of New York.

Chapter 55, also known as the Yonkers City School District Deficit Financing Act (Act), contained two distinct financial assistance packages. First, the City is authorized to issue serial bonds in an amount not to exceed \$45 million for the specific purpose of liquidating any deficit of the District's general fund existing on June 30, 2014. The conditions for the bonding authorization include having the City of Yonkers' and the District's proposed budgets submitted to the New York State Comptroller and the Commissioner of the New York State Department of Education (Commissioner) on an annual basis until the 10<sup>th</sup> anniversary of the issuance of the bonds or the first issuance of deficit notes, whichever is earlier. The Comptroller and Commissioner will examine the budgets and make recommendations which shall be incorporated in each respective budget adoption, referred to as a corrective action plan.

This Office has reviewed the May 20, 2014 Report issued by the Office of the State Comptroller reviewing the fiscal year 2014/15 City and District proposed budgets as required by the Act<sup>5</sup>. It is important to note, as the report itself states, that the review does not constitute an audit under generally accepted government auditing standards (GAGAS) and there are no comments or specific recommendations made with respect to public policy decisions. The review addressed the question: "Are the significant revenue and expenditure projections in the City's [including the District's] budget reasonable." The Report answered that question in the affirmative and made various recommendations, which specifically addressed revenue, expenditure and fund balance issues. The only directive from the report related to the development of a "plan to maintain fund balance at a reasonable level to ensure funds are available in the case of a shortfall in revenues or unexpected expenditures during the fiscal year."

This Office finds that the terms of the Act as related to the bonding authority directly address the issues that led to the error and continuation of erroneously projecting the Chapter 1 accruals as revenue. Ultimately, the City Council and Mayor must determine whether those terms are in the best interests of the City of Yonkers.

The second component of the Act includes a one time, \$28 million payment from the New York State Municipal Bond Bank Agency to the City of Yonkers in support of the District. The City may only receive such funds

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<sup>5</sup> It should be noted that the City has not taken formal action with respect to the bonding of the \$45 million but the schedule contained within the Act would have rendered such action moot if the proposed budgets were not reviewed.

if the City and the District enter into an Inter-Municipal Agreement (IMA), which must include a series of administrative controls and reforms. Primarily, the IMA requires that the City assume all District finance and budget functions in consultation with the Superintendent of the Yonkers City Schools (Superintendent) and the Yonkers Board of Education (Board). Additionally, the IMA gives the City the authority to consult on all labor contracts.

Pursuant to the Act, The IMA must also include the authority of the City, in consultation with the Superintendent and Board, to supervise the non-academic operational functions of the District, which include the office of the Chief Administrative Officer (including communications functions), legal, information technology (including records management), central printing and mailing, human resources, public works, facilities and grounds management, engineering and transportation.

The IMA also grants the City the authority to create, abolish, maintain and consolidate all positions in the non-academic operational functions outlined above while the District retains the authority to create, abolish, maintain or consolidate positions which have a nexus to the academic activities of the District, which do not fall within the scope of the finance and budget functions and the non-academic operational functional referenced above.

Furthermore, the Act authorizes the City to include in the IMA, implementation of a schedule of public hearings on the District's budget, which shall be held no less than quarterly and shall be in consultation with the Superintendent and the Board.

Again, this Office finds that the terms of the acceptance of the \$28 million from the State's Municipal Bond Bank Agency do not impose a undue burden on the City or the District and that, in fact, the City and the District have already agreed upon various levels of oversight and cooperation and that a continuing IMA, with additional components, will result in immediate cost savings and enable the City and the District to plan more efficiently both from a finance and budgeting perspective as well as from an academic institutional perspective.

It should be noted that on May 19, 2014, the Yonkers City Council passed a Resolution approving the engagement of outside Counsel to review the Act and determine whether and to what extent the City of Yonkers may challenge the Act as an unconstitutional usurpation of its home rule power. With respect to the Council's action, this Office will refrain from commenting beyond the fact that a significant amount of financial assistance from the State hangs in the balance.

## **Conclusion**

It is difficult to comprehend an error of this magnitude given the resources generally available to school districts and their staffs. Here, a faulty revenue assumption was permitted to go undetected and unchecked for 2 years. The error represented nearly 10% of the District's State Aid receivables. There was enough information available that should have at the very least called into question the assumption. Blame should not be laid at the feet of a budget analyst when so many signals and warnings were blatantly ignored.

In conversations with the former Superintendent, he acknowledged the failure of the District to properly staff its central office. He stated that decisions about where to spend money nearly always fell on the side of academic programs. This is a laudable goal, however, as this situation clearly demonstrates, not a practical one. External auditors do not generally concern themselves with graduation rates or after school programs. They perform a vital, statutory financial function in New York State.

The District has demonstrated a need for additional oversight. The District bears no direct responsibility to the people of the City of Yonkers and this Office feels strongly that such lack of responsibility fosters a culture of imprudent decision-making, including a stark failure to address the most basic needs related to its finances. The City's elected officials are often left in the unenviable position of sparring with the District over cuts to education that impact the families of over 25,000 young people. Yet the City is offered but a brief glance at the District's budget prior to presenting it for passage. The City's and the District's interests are unavoidably linked and this error only manifested the need for a solution.

The State of New York has responded to the City of Yonkers' request for assistance, the absence of which would have certainly created a tremendous financial gap in the fiscal year 2014/15 budget.

The District and, by proxy, the City are experiencing a severe financial crisis. Potential options for a solution are limited and the City has expended all available resources to ensure that the crisis does not lead to catastrophe. The recommendations that follow must be addressed promptly, but must also involve the input by and the agreement among the several stakeholders, including the Mayor, the City Council, the Board of Education, the Superintendent of Schools as well as the various State representatives.

## **Recommendations**

1. The City of Yonkers Department of Finance and Division of Budget must work in coordination with the City School District's

Department of Finance in the preparation and presentation of the District's annual budget. The IMA envisioned by the Yonkers City School District Deficit Financing Act is a comprehensive measure that will achieve this goal and ensure continued cooperation in the years to come.

2. The District must maintain staffing levels appropriate to conduct its functions both from a quantitative and a qualitative perspective. External Auditor reports going back at least to 2010 have found a lack of sufficient staff to perform the functions of the finance department. Whether through the proposed IMA or another vehicle, staffing levels must be evaluated and addressed. Merging functions with the City's Department of Finance and Division of Budget would be a good first step.

3. The District must utilize its existing resources such as the Conference of Big 5 School Districts and its external auditors to address issues related to State legislation and/or accounting procedures.

4. The District must heed the advice of its external auditors and implement a modified accrual basis of accounting.

5. Full implementation of the IMA, which would consolidate operational and administrative functions, other than respective Finance Departments, should be completed in the future in order to streamline operations and eliminate duplicative functions where possible.

**EXHIBIT**  
**A**

6 6 2 3 0 0

SA-1  
(Yonkers)

THE UNIVERSITY OF THE STATE OF NEW YORK  
THE STATE EDUCATION DEPARTMENT  
OFFICE OF MANAGEMENT SERVICES  
STATE AID UNIT  
507 WEST HALL, EDUCATION BUILDING  
ALBANY, NEW YORK 12234

APPLICATION AND CLAIM FOR  
AN APPORTIONMENT PURSUANT TO  
CHAPTER 2 OF THE LAWS OF 2011

SA-1 (4/11)  
(Yonkers)

**GENERAL INSTRUCTIONS:** Only those municipalities wishing to accrue the apportionment provided pursuant to Chapter 2 of the Laws of 2011 as revenue to the 2010-2011 school year, and thereby reduce revenues in the 2011-2012 school year by an equal amount, should complete and submit this form. No apportionment may be claimed on this form in excess of 309% of the deficit reduction assessment of December, 1990 as determined by the Commissioner of Education pursuant to Chapter 947 of the Laws of 1990 plus the Net Gap Elimination Adjustment for 2010-11 or in excess of salary expenses incurred by the municipality for employees of the city school district between April 1, 2011 and June 30, 2011. An original copy of the required Board Resolution approved by the Mayor and one (1) completed copy of the form should be filed by the municipality on behalf of the city school district with the State Aid Unit not sooner than June 13, 2011 but not later than June 24, 2011. This application will be accepted based on date of postmark. If approved, the claimed apportionment will be paid in September, 2011.

City School District Name: Yonkers Public Schools

1. City School District's December, 1990 Deficit Reduction Assessment (As Determined by the Commissioner on March 1, 1991) \$ 1,797,553
2. Entry 1 \* 309% \$ 5,554,439
3. Net Gap Elimination Adjustment for 2010-11 (2010-11 GEN entries 131 + 132) \$ 15,803,033
4. Entry 2 + Entry 3 \$ 21,357,472
5. City School District's Total Salary Expenditures Incurred between April 1, 2011 and June 30, 2011 \$ 104,060,966
6. Apportionment Requested Pursuant to Chapter 2, Laws of 2011 (May not exceed the lesser of entry 4 or entry 5) \$ 21,357,472

7. Certification:

I certify that the apportionment herein claimed is claimed as reimbursement for salary expenses incurred by the municipality for employees of the city school district during the period from April 1, 2011 through June 30, 2011 and that such claim has been approved by the Board of Education and the Mayor on 5/20/11. I understand that this apportionment of aid will be paid in September, 2011, and general aid payable during the months of September, October, November, 2011 for the 2011-2012 school year, will be reduced in an amount equal to the apportionment.

For the Municipality:

By: Carol J. Mancini  
Title: Commissioner of Finance  
Date: 5-20-11

For the School District:

By: Stanley F. Bronski  
Title: Asst. Supt. for Finance  
Date: 4/20/11



**EXHIBIT**  
**B**

YONKERS PUBLIC SCHOOLS  
2010/11 ADOPTED BUDGET  
Consolidated Budget Highlights

Adopted Budget 2010/11	\$ 484,148,497	Adopted Budget 2009/10	\$ 487,051,292
Adopted Revenue 2010/11		Budget decrease	(2,902,795)
City of Yonkers	217,849,240	Percent decrease	-0.60%
State of New York	216,511,415		
Other NYS Aid /Chargebacks	(1,332,870)	Fund Balance Applied	6,000,000
Video Lottery Revenue	19,600,000	General Fund	16,786
Medicaid / Impact Aid	1,029,000	Debt Service Fund	
Chapter 1 State Aid Advance	15,803,033	Total	\$ 6,016,786
Other	8,671,893	Projected Enrollment Pre-K - 12	25,631
Fund Balance Applied	6,016,786		
Total	\$ 484,148,497	Full Time Equivalent Staff	2,994.24
		Consolidated Total	3,465.50
		District Total	

**EXHIBIT**  
**C**

6 6 2 3 0 0

SA-1  
(Yonkers)

THE UNIVERSITY OF THE STATE OF NEW YORK  
THE STATE EDUCATION DEPARTMENT  
OMS - STATE AID UNIT  
507 WEST HALL, EDUCATION BUILDING  
ALBANY, NEW YORK 12234

APPLICATION AND CLAIM FOR  
AN APPORTIONMENT PURSUANT TO  
CHAPTER 58 OF THE LAWS OF 2011  
SA-1 (4/12)  
(Yonkers)

**GENERAL INSTRUCTIONS:** Only those municipalities wishing to accrue the apportionment provided pursuant to Chapter 58 of the Laws of 2011 as revenue to the 2011-2012 school year, and thereby reduce revenues in the 2012-2013 school year by an equal amount, should complete and submit this form. No apportionment may be claimed on this form in excess of 309% of the deficit reduction assessment of December, 1990 as determined by the Commissioner of Education pursuant to Chapter 947 of the Laws of 1990 plus the Net Gap Elimination Adjustment for 2010-11 plus the GAP Elimination Adjustment for 2011-12 or in excess of salary expenses incurred by the municipality for employees of the city school district between April 1, 2012 and June 30, 2012. An original copy of the required Board Resolution approved by the Mayor and one (1) completed copy of the form should be filed by the municipality on behalf of the city school district with the State Aid Unit not sooner than June 11, 2012 but not later than June 22, 2012. This application will be accepted based on date of postmark. If approved, the claimed apportionment will be paid in September, 2012.

City School District Name: Yonkers Public Schools

1. City School District's December, 1990 Deficit Reduction Assessment (As Determined by the Commissioner on March 1, 1991) \$ 1,797,553
2. Entry 1 \* 309% \$ 5,554,439
3. Net Gap Elimination Adjustment for 2010-11 (2010-11 GEN entries 131 + 132) \$ 15,803,033
4. GAP Elimination Adjustment for 2011-12 (2011-12 GEN entry 26) \$ 28,116,478
5. Sum of 2, 3 & 4 \$ 49,473,950
6. City School District's Total Salary Expenditures Incurred between April 1, 2012 and June 30, 2012 \$ 106,622,933
7. Apportionment Requested Pursuant to Chapter 58, Laws of 2011 (May not exceed the lesser of entry 5 or entry 6) \$ 48,314,428

8. Certification:

I certify that the apportionment herein claimed is claimed as reimbursement for salary expenses incurred by the municipality for employees of the city school district during the period from April 1, 2012 through June 30, 2012 and that such claim has been approved by the Board of Education and the Mayor on 6/8/12. I understand that this apportionment of aid will be paid in September, 2012, and general aid payable during the months of September, October, November, 2012 for the 2012-2013 school year, will be reduced in an amount equal to the apportionment.

For the Municipality:

By: [Signature]  
Title: Mayor  
Date: 6/8/12  
Commissioner of Finance and Management

For the School District:

By: [Signature]  
Title: Asst. Supt. for Finance  
Date: 6/8/12

**EXHIBIT  
D**

YONKERS PUBLIC SCHOOLS  
2011/12 ADOPTED BUDGET  
Consolidated Budget Highlights

Adopted Budget 2011/12	\$ 500,910,465	Adopted Budget 2010/11	\$ 484,148,497
Adopted Revenue 2011/12		Budget increase/(decrease)	16,761,968
City of Yonkers	224,749,240	Percent increase/(decrease)	3.46%
State of New York	206,361,313		
Other NYS Aid /Chargebacks	(697,963)		
Video Lottery Revenue	19,600,000	Fund Balance Applied	
Chapter 1 State Aid Advance	26,956,956	General Fund	14,430,711
Medicaid / Impact Aid	20,000	Debt Service Fund	15,000
Charges for Services	418,580	Total	\$ 14,445,711
Use of Property	130,500		
Sale of Prop & Comp for Loss	5,000		
Miscellaneous	3,232,161	Projected Enrollment K - 12	24,977
Interfund Revenues	973,164		
Interfund Transfers	2,009,803	Full Time Equivalent Staff	
Bonded Appropriations	2,706,000	Consolidated Total	2,878.61
Fund Balance Applied	14,445,711	District Total	3,276.50
Total	\$ 500,910,465		

**EXHIBIT**  
**E**

THE UNIVERSITY OF THE STATE OF NEW YORK  
THE STATE EDUCATION DEPARTMENT  
OMS -STATE AID UNIT  
507 WEST HALL, EDUCATION BUILDING  
ALBANY, NEW YORK 12234

APPLICATION AND CLAIM FOR  
AN APPORTIONMENT PURSUANT TO  
CHAPTER 57 OF THE LAWS OF 2012  
SA-1 (4/13)  
(Yonkers)

**GENERAL INSTRUCTIONS:** Only those municipalities wishing to accrue the apportionment provided pursuant to Chapter 57 of the Laws of 2012 as revenue to the 2012-2013 school year, and thereby reduce revenues in the 2013-2014 school year by an equal amount, should complete and submit this form. No apportionment may be claimed on this form in excess of 309% of the deficit reduction assessment of December, 1990 as determined by the Commissioner of Education pursuant to Chapter 947 of the Laws of 1990 plus the Net Gap Elimination Adjustment for 2010-11 plus the GAP Elimination Adjustment for 2011-12 or in excess of salary expenses incurred by the municipality for employees of the city school district between April 1, 2013 and June 30, 2013. An original copy of the required Board Resolution approved by the Mayor and one (1) completed copy of the form should be filed by the municipality on behalf of the city school district with the State Aid Unit not sooner than June 10, 2013 but not later than June 21, 2013. This application will be accepted based on date of postmark. If approved, the claimed apportionment will be paid in September, 2013.

City School District Name: Yonkers Public Schools

1. City School District's December, 1990 Deficit Reduction Assessment (As Determined by the Commissioner on March 1, 1991) \$ 1,797,553
2. Entry 1 \* 309% \$ 5,554,439
3. Net Gap Elimination Adjustment for 2010-11 (2010-11 GEN entries 131 + 132) \$ 15,803,033
4. GAP Elimination Adjustment for 2011-12 (2011-12 GEN entry 26) \$ 28,116,478
5. Sum of 2, 3 & 4 \$ 49,473,950
6. City School District's Total Salary Expenditures Incurred between April 1, 2013 and June 30, 2013 \$ 107,150,394
7. Apportionment Requested Pursuant to Chapter 57, Laws of 2012 (May not exceed the lesser of entry 5 or entry 6) \$ 49,473,950

8. Certification:

I certify that the apportionment herein claimed is claimed as reimbursement for salary expenses incurred by the municipality for employees of the city school district during the period from April 1, 2013 through June 30, 2013 and that such claim has been approved by the Board of Education and the Mayor on \_\_\_\_\_. I understand that this apportionment of aid will be paid in September, 2013, and general aid payable during the months of September, October, November, 2013 for the 2013-2014 school year, will be reduced in an amount equal to the apportionment.

For the Municipality:

For the School District:

By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

By: [Signature]  
Title: Accountant III  
Date: May 6, 2013



**EXHIBIT**  
**F**

**YONKERS PUBLIC SCHOOLS**  
**2012/13 ADOPTED BUDGET**  
**Consolidated Budget Highlights**

Adopted Budget 2012/13	\$ 518,934,478	Adopted Budget 2011/12	\$ 500,910,465
Adopted Revenue 2012/13		Budget increase/(decrease)	18,024,013
City of Yonkers		Percent increase/(decrease)	3.60%
State of New York	227,299,649		
Other NYS Aid /Chargebacks	217,507,569	Fund Balance Applied	21,736,691
Video Lottery Revenue	1,052,037	General Fund	15,000
Chapter 1/ Chapter 2 GEA	19,600,000	Debt Service Fund	
Federal Aid	26,956,956	Total	\$ 21,751,691
Charges for Services	20,000		
Use of Property	392,119	Projected Enrollment K - 12	26,830
Sale of Prop & Comp for Loss	135,946		
Miscellaneous	38,981	Full Time Equivalent Staff	2,917.31
Interfund Revenues	3,200,391	Consolidated Total	3,298.50
Bonded Appropriations	979,139		
Fund Balance Applied	0		
Total	<u>\$ 518,934,478</u>		

**EXHIBIT**  
**G**

**YONKERS PUBLIC SCHOOLS**  
**2012/13 ADOPTED BUDGET**  
**Consolidated Budget Highlights**

*Revised 7/12/12*

Adopted Budget 2012/13	\$ 513,452,883	Adopted Budget 2011/12	\$ 500,910,465
Adopted Revenue 2012/13		Budget increase/(decrease)	12,542,418
City of Yonkers	227,299,649	Percent increase/(decrease)	2.50%
State of New York	217,507,569		
Other NYS Aid /Chargebacks	1,052,037	Fund Balance Applied	
Video Lottery Revenue	19,600,000	General Fund	15,095,574
Chapter 1/ Chapter 2 GEA	28,116,478	Debt Service Fund	<u>15,000</u>
Federal Aid	20,000	Total	\$ 15,110,574
Charges for Services	392,119		
Use of Property	135,946	Projected Enrollment K - 12	26,830
Sale of Prop & Comp for Loss	38,981		
Miscellaneous	3,200,391		
Interfund Revenues	979,139		
Bonded Appropriations	0	Full Time Equivalent Staff	
Fund Balance Applied	<u>15,110,574</u>	Consolidated Total	2,915.31
Total	\$ 513,452,883	District Total	3,296.50

**EXHIBIT**  
**H**

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SA-1  
(Yonkers)

THE UNIVERSITY OF THE STATE OF NEW YORK  
THE STATE EDUCATION DEPARTMENT  
OMS -STATE AID UNIT  
507 WEST HALL, EDUCATION BUILDING  
ALBANY, NEW YORK 12234

APPLICATION AND CLAIM FOR  
AN APPORTIONMENT PURSUANT TO  
CHAPTER 57 OF THE LAWS OF 2013  
SA-1 (4/14)  
(Yonkers)

**GENERAL INSTRUCTIONS:** Only those municipalities wishing to accrue the apportionment provided pursuant to Chapter 57 of the Laws of 2013 as revenue to the 2013-2014 school year, and thereby reduce revenues in the 2014-2015 school year by an equal amount, should complete and submit this form. No apportionment may be claimed on this form in excess of 309% of the deficit reduction assessment of December, 1990 as determined by the Commissioner of Education pursuant to Chapter 947 of the Laws of 1990 plus the Net Gap Elimination Adjustment for 2010-11 plus the GAP Elimination Adjustment for 2011-12 or in excess of salary expenses incurred by the municipality for employees of the city school district between April 1, 2014 and June 30, 2014. An original copy of the required Board Resolution approved by the Mayor and one (1) completed copy of the form should be filed by the municipality on behalf of the city school district with the State Aid Unit not sooner than June 9, 2014 but not later than June 20, 2014. This application will be accepted based on date of postmark. If approved, the claimed apportionment will be paid in September, 2014.

City School District Name: Yonkers Public Schools

1. City School District's December, 1990 Deficit Reduction Assessment (As Determined by the Commissioner on March 1, 1991) \$ 1,797,553
2. Entry 1 \* 309% \$ 5,554,439
3. Net Gap Elimination Adjustment for 2010-11 (2010-11 GEN entries 131 + 132) \$ 15,803,033
4. GAP Elimination Adjustment for 2011-12 (2011-12 GEN entry 26) \$ 28,116,478
5. Sum of 2, 3 & 4 \$ 49,473,950
6. City School District's Total Salary Expenditures Incurred between April 1, 2014 and June 30, 2014 \$ 93,728,847
7. Apportionment Requested Pursuant to Chapter 57, Laws of 2013 (May not exceed the lesser of entry 5 or entry 6) \$ 49,473,950

8. Certification:

I certify that the apportionment herein claimed is claimed as reimbursement for salary expenses incurred by the municipality for employees of the city school district during the period from April 1, 2014 through June 30, 2014 and that such claim has been approved by the Board of Education and the Mayor on \_\_\_\_\_. I understand that this apportionment of aid will be paid in September, 2014, and that this amount shall first be deducted from the following payments in the following order: the Lottery apportionment followed by the fixed fall payments (September, October, November 2014, for the 2014-15 school year), followed by the district's payments to the Teacher's Retirement System. Any remainder will be deducted from the individualized payments due the district (January - June 2015 General Aid).

For the Municipality:

By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

For the School District:

By: [Signature]  
Title: Assistant Superintendent  
Date: 5/21/14

# **EXHIBIT**

## **I**

YONKERS PUBLIC SCHOOLS  
2013/14 ADOPTED BUDGET  
Consolidated Budget Highlights

Adopted Budget 2013/14	\$ 529,945,158	Adopted Budget 2012/13	\$ 513,452,883
Adopted Revenue 2013/14		Budget increase/(decrease)	16,492,275
City of Yonkers	231,466,824	Percent increase/(decrease)	3.21%
State of New York	225,006,825		
Other NYS Aid /Chargebacks	(597,963)		
Video Lottery Revenue	19,600,000	Fund Balance Applied	21,969,760
Chapter 1/ Chapter 2 GEA	28,116,478	General Fund	
Federal Aid	520,000	Debt Service Fund	
Charges for Services	387,120	Total	\$ 21,969,760
Use of Property	300,500		
Sale of Prop & Comp for Loss	39,000		
Miscellaneous	2,157,475	Projected Enrollment K - 12	24,589
Interfund Revenues	979,139		
Bonded Appropriations	0	Full Time Equivalent Staff	2,992.66
Fund Balance Applied	21,969,760	Consolidated Total	3,350.60
Total	\$ 529,945,158	District Total	



**EXHIBIT**  
**J**

**From:** Jennifer Pyle [jpyle@big5schools.org]

**Sent:** Thursday, April 12, 2012 3:32 PM

**To:** FARRELL, JANE G.

**Subject:** Budget Language

Hi Jane. I think this is what you are looking for. It is from the adopted budget language Chapter 57:

44 § 26. Special apportionment for salary expenses. a. Notwithstanding  
45 any other provision of law, upon application to the commissioner of  
46 education, not sooner than the first day of the second full business  
47 week of June, 2013 and not later than the last day of the third full  
48 business week of June, 2013, a school district eligible for an appor-  
49 tionment pursuant to section 3602 of the education law shall be eligible  
50 to receive an apportionment pursuant to this section, for the school  
51 year ending June 30, 2013, for salary expenses incurred between April 1  
52 and June 30, 2013 and such apportionment shall not exceed the sum of (i)  
53 the deficit reduction assessment of 1990--91, as determined by the  
54 commissioner of education, pursuant to paragraph f of subdivision 1 of  
55 section 3602 of the education law, as in effect through June 30, 1993,  
56 plus (ii) 186 percent of such amount for a city school district in a  
S. 6257--E 23 A. 9057--D  
1 city with a population in excess of 1,000,000 inhabitants, plus (iii)  
2 209 percent of such amount for a city school district in a city with a  
3 population of more than 195,000 inhabitants and less than 219,000 inhab-  
4 itants according to the latest federal census plus (iv) the net gap  
5 elimination adjustment for 2010--2011, as determined by the commissioner  
6 of education pursuant to chapter 53 of the laws of 2010, plus (v) the  
7 gap elimination adjustment for 2011--12 as determined by the commission-  
8 er of education pursuant to subdivision 17 of section 3602 of the educa-  
9 tion law, and provided further that such apportionment shall not exceed  
10 such salary expenses. Such application shall be made by a school  
11 district, after the board of education or trustees have adopted a resol-  
12 ution to do so and in the case of a city school district in a city with  
13 a population in excess of 125,000 inhabitants, with the approval of the  
14 mayor of such city.

5/27/2014

**EXHIBIT**  
**K**

## **YONKERS PUBLIC SCHOOLS**

### **SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2010**

---

#### **2010-1 Finding -**

**Criteria:** The School District's ability to produce timely and accurate general ledger account reconciliations and financial reports for those individuals and governments charged with oversight.

**Condition:** During our audit, we noted delays and errors in recording of the School District's financial transactions as evidenced by the number of journal entries required to close the School District's accounting records at the end of its fiscal year.

**Cause:** Lack of sufficient resources with proper experience and competence to oversee authorization and reporting of the School District's financial transactions.

**Effect:** Unexpected medical leave or turnover in a few key positions in the Finance and Budget functions resulted in a significant negative impact on the School District's ability to complete certain critical accounting functions and has impaired its ability to produce financial statements on a timely and accurate basis.

**Recommendation:** We recommend that organizational structure and reporting responsibilities of the Finance and Budget functions be evaluated. Vacant positions that are authorized should be filled as quickly as possible. Any changes to the organizational structure and reporting responsibilities of the Finance and Budget functions should be designed to appropriately address the issues identified above.

**District Response:** The School District agrees with the recommendation and has begun a review and reorganization of the Finance department.

#### **2010-2 Finding -**

**Criteria:** The School District's interim financial statements for the Governmental funds should be prepared using the modified basis of accounting.

**Condition:** During our audit, we noted that the School District prepares its interim financial statements for its Governmental funds on the cash basis of accounting. It is our understanding that the School District's Administration and Board rely on these statements to address ongoing business issues, without consideration for the necessary adjustments required to present interim financial statements on the modified accrual basis of accounting.

**Cause:** In preparing its interim financial statements, the School District does not use accounting procedures that incorporate the modified accrual basis of accounting, which would include the recognition of amounts due to the School District and amounts owed to staff, vendors, governments and pension plans.

**Effect:** School District Administration and Board could make decisions that impact the ongoing operations of the School District based on financial statements that are not accurate.

**Recommendation:** In order to facilitate School District Administration and Board making timely, informed business decisions during the year, the School District needs to prepare General Fund financial statements on the modified accrual basis. We recommend that modified accrual basis financial statements be prepared at least quarterly during the year.

**2010-2 Finding (Continued)-**

**District Response:** The School District agrees with the recommendation and, in consultation with external and internal auditors, will develop quarterly financial reports that serve as the type of business tools described.

**2010-3 Finding -**

**Criteria:** School District Administration is responsible for establishing and maintaining effective internal control over the procurement process.

**Condition:** The Assistant Purchasing Agent enters all new vendors and changes to existing vendors in the School District's Financial Application Software Vendor Master File. She also creates, edits and monitors purchase orders to vendors, along with matching receiving documents to vendor invoices. There is no current review of changes to the Vendor Master File by management staff independent of the purchasing function. This finding was included in our 2009 Schedule of Findings.

**Cause:** The School District has developed procedures that would ensure that all changes to the vendor master file have been reviewed and approved, including generating required reports. However, the School District has not yet began its review of the edit report of changes to the vendor master file.

**Effect:** Unauthorized vendors may be added or other unauthorized changes to the Vendor Master File may be made.

**Recommendation:** We recommend that the edit report for vendor master file changes be reviewed on a periodic basis. The review should be conducted and documented by a supervisory level individual knowledgeable about the School District's purchasing practices on at least a monthly basis.

**District Response:** The School District agrees with the recommendation and has instituted a weekly confirmation process to assure the timely and regular review of the vendor master file.

**2010-4 Finding -**

**Criteria:** For a sound fiduciary environment, the School District must have appropriate payroll processing internal controls and procedures in place.

**Condition:** In our review of the School District's payroll processing, personnel and human resource functions, we identified several matters related to payroll processing, including: a) incompatible access rights to payroll software applications that would allow for adequate segregation of duties; b) inactive employees who were not removed from the payroll master file; c) lack of documentation of who has proper access/restrictions to specific payroll applications; and d) timeliness of employee timesheets being received. This finding was included in our 2009 Schedule of Findings.

**Cause:** Processing controls and procedures in the payroll area are not required to be reviewed and updated on a periodic basis.

**Effect:** The lack of proper internal control procedures and segregation of incompatible duties makes the District more vulnerable to the possibility of fraud and material misstatement.

**2010-4 Finding (Continued)-**

**Recommendation:** We recommend that School District personnel review each of the areas identified above and implement appropriate corrective action to improve the segregation of duties, processing controls and procedures in the payroll area.

**District's Response:** The School District agrees with the recommendation and will immediately begin a review and assessment of access rights within the Payroll department.

**2010-5 Finding -**

**Criteria:** School District Administration is responsible for establishing and maintaining effective internal control over the procurement and accounts payable process.

**Condition:** During our review of the Encumbrances payable account balance, we identified significant differences between the general ledger and the detail listing of encumbrances. Upon further investigation, it was determined that there were a number of errors in the open encumbrances balance as of June 30, 2010.

**Cause:** This error occurred as a result of the lack of a timely review of the detailed list of open encumbrances.

**Effect:** The risk of unauthorized transactions increases as unreconciled differences between general ledger and the detail listing of encumbrances payable are not reviewed in a timely manner.

**Recommendation:** We recommend that valid encumbrances of the School District be recorded on the School District's financial statements. Therefore, School District personnel should develop and implement policies and procedures related to periodic review and reconciliation of open encumbrance detail. This periodic review should occur at least quarterly.

**District Response:** The School District agrees with this recommendation and will institute a quarterly review and reconciliation of encumbrances beginning with the period ending March 30, 2011.

**2010-6 Finding**

**Criteria:** Payroll of individuals assigned to federally funded programs is required to be certified per OMB Circular A-87 Regulatory Requirements.

**Condition:** The School District has developed and implemented procedures for Payroll Certification requirements for Federal Funds based on OMB Circular A-87 Regulatory Requirements. We noted that certain attestation forms were not completed by program staff in a timely manner, as required. We also noted one certification that was not completed for an employee who was terminated from the district during the grant period.

**Cause:** Payroll was not certified in a timely manner for individuals assigned to federal award programs in accordance with OMB A-87.

**Effect:** Failure to meet requirements of Federal award programs may result in loss of Federal funding.

**2010-6 Finding (Continued)-**

**Recommendation:** To ensure compliance with School District policies and procedures over Payroll Certification, we recommend ongoing training of employees involved in Federal fund activities. Training should be conducted with respect to payroll certification requirements, emphasizing the need for District employees to adhere to these requirements.

**District Response:** As the observation notes, the School District has procedures in place for federal payroll certification requirements. While these procedures are carefully adhered to at the central reporting level, the School District agrees that training at the building level will help address inconsistencies in form completion and submission.

**EXHIBIT**  
**L**



**YONKERS PUBLIC SCHOOLS**  
(a component unit of the City of Yonkers, New York)

**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2011**

---

**2011-1 Finding -**

**Criteria:** The School District's ability to produce timely and accurate general ledger account reconciliations and financial reports for those individuals and governments charged with oversight.

**Condition:** During our audit, we noted delays and errors in recording of the School District's financial transactions as evidenced by the number of journal entries required to close the School District's accounting records at the end of its fiscal year. This finding was included in our 2010 Schedule of Findings.

**Cause:** Lack of sufficient resources with proper capabilities and competencies to oversee authorization and reporting of the School District's financial transactions.

**Effect:** The lack of sufficient personnel with proper capabilities and competencies in the Finance and Budget functions resulted in a significant negative impact on the School District's ability to complete certain critical accounting functions and has impaired its ability to produce internal financial statements on a timely and accurate basis.

**Recommendation:** We recommend that organizational structure and reporting responsibilities of the Finance and Budget functions continue be evaluated. Vacant positions that are authorized should be filled as quickly as possible. Any changes to the organizational structure and reporting responsibilities of the Finance and Budget functions should be designed to appropriately address the issues identified above.

**District Response:** The School District agrees with the recommendation and has begun a review and reorganization of the Finance department.

**2011-2 Finding -**

**Criteria:** The School District's interim financial statements for the Governmental funds should be prepared using the modified basis of accounting.

**Condition:** During our audit, we noted that the School District prepares its interim financial statements for its Governmental funds on the cash basis of accounting. It is our understanding that the School District's Administration and Board rely on these statements to address ongoing business issues, without consideration for the necessary adjustments required to present interim financial statements on the modified accrual basis of accounting. This finding was included in our 2010 Schedule of Findings.

**Cause:** The lack of personnel with capabilities and competencies to assist in preparing the financial statements in accordance with generally accepted accounting principals. Along with the School District not using accounting procedures that incorporate the modified accrual basis of accounting, which would include the recognition of amounts due to the School District and amounts owed to staff, vendors, governments and pension plans.

**Effect:** School District Administration and Board could make decisions that impact the ongoing operations of the School District based on financial statements that are not accurate.

### **2011-2 Finding (Continued)-**

**Recommendation:** In order to facilitate School District Administration and Board making timely, informed business decisions during the year, the School District needs to prepare General Fund financial statements on the modified accrual basis. We recommend that modified accrual basis financial statements be prepared at least quarterly during the year once the new financial and accounting software has been fully implemented in the calendar year 2012.

**District Response:** The School District agrees with the recommendation and, in consultation with external and internal auditors, will develop quarterly financial reports that serve as the type of business tools described.

### **2011-3 Finding -**

**Criteria:** Ensure payroll transactions are properly authorized, processed and recorded the School District must have appropriate payroll processing internal controls and procedures in place.

**Condition:** In our review of the School District's payroll processing, personnel and human resource functions, we identified several matters related to payroll processing, including: a) incompatible access rights to payroll software applications that would allow for adequate segregation of duties; b) inactive employees who were not removed from the payroll master file; c) significant number of manual steps required to process payroll; and d) timeliness of employee timesheets being received. This finding was included in our 2010 Schedule of Findings.

**Cause:** In addition to processing controls and procedures in the payroll area are not required to be reviewed and updated on a periodic basis the current payroll software has significant inherent limitations which limits security and requires additional manual steps to process payroll.

**Effect:** The lack of proper internal control procedures, segregation of incompatible duties and manual processes makes the District more vulnerable to the possibility of fraud and material misstatement.

**Recommendation:** We recommend that District personnel review each of the areas identified above and ensure that the appropriate corrective action is implemented in the new payroll system to improve the segregation of duties, processing controls and procedures in the payroll area. We also recommend that once the new payroll system is implemented in 2012 the School District's internal auditors' perform an internal audit of the payroll process to determine that all steps noted above have been properly addressed in the new system.

**District's Response:** The School District agrees with the recommendation and will continue to review and assess access rights within the Payroll department.

**EXHIBIT**  
**M**

**YONKERS PUBLIC SCHOOLS**  
(a component unit of the City of Yonkers, New York)

**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

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**2012-1 Finding -**

**Criteria:** The School District's ability to produce timely and accurate general ledger account reconciliations and financial reports for those individuals and governments charged with oversight.

**Condition:** During our audit, we noted delays and errors in the recording of The School District's financial transactions as evidenced by the number of journal entries required to close The School District's accounting records at the end of its fiscal year. This finding was included in our 2011 and our 2010 Schedule of Findings.

**Cause:** Lack of sufficient resources with proper capabilities and competencies to oversee authorization and reporting of The School District's financial transactions.

**Effect:** The lack of sufficient personnel with proper capabilities and competencies in the Finance and Budget functions resulted in a significant negative impact on The School District's ability to complete certain critical accounting functions and has impaired its ability to produce internal financial statements on a timely and accurate basis.

**Recommendation:** We recommend that organizational structure and reporting responsibilities of the Finance and Budget functions continue be evaluated. Vacant positions that are authorized should be filled as quickly as possible. Any changes to the organizational structure and reporting responsibilities of the Finance and Budget functions should be designed to appropriately address the issues identified above.

**District Response:** The School District agrees with the recommendation and has been actively recruiting key positions in the Finance department, including interviewing prospective candidates.

**2012-2 Finding -**

**Criteria:** The School District's interim financial statements for the Governmental funds should be prepared using the modified accrual basis of accounting.

**Condition:** During our audit, we noted that The School District prepares its interim financial statements for its Governmental funds on the cash basis of accounting. It is our understanding that The School District's Administration and Board rely on these statements to address ongoing business issues, without consideration for the necessary adjustments required to present interim financial statements on the modified accrual basis of accounting. During 2012, the District had significant variances from their approved General Fund Budget that were not properly identified prior to the audited financial statements being issued. This finding was included in our 2011 and our 2010 Schedule of Findings.

**Cause:** The lack of personnel with capabilities and competencies to assist in preparing the financial statements in accordance with generally accepted accounting principles. Along with The School District not using accounting procedures that incorporate the modified accrual basis of accounting, which would include the recognition of amounts due to The School District and amounts owed to staff, vendors, governments and pension plans.

**YONKERS PUBLIC SCHOOLS**  
(a component unit of the City of Yonkers, New York)

**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2012 (Continued)**

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**2012-2 Finding (Continued)-**

**Effect:** School district Administration and Board could make decisions that impact the ongoing operations of The School District based on financial statements that are not accurate.

**Recommendation:** In order to facilitate School district Administration and Board making timely, informed business decisions during the year, The School District needs to prepare General Fund financial statements on the modified accrual basis. We recommend that modified accrual basis financial statements be prepared at least quarterly during the year fully utilizing the capabilities of the new financial and accounting software that has been implemented for the 2013 fiscal year.

**District Response:** The School District agrees with the recommendation and, in consultation with external and internal auditors, have developed quarterly financial reports that serve as the type of business tools described which will be implemented by January 31, 2013.

**2012-3 Finding -**

**Criteria:** To ensure that payroll transactions are properly authorized, processed and recorded, The School District must have appropriate payroll processing internal controls and procedures in place.

**Condition:** In our review of The School District's payroll processing, personnel and human resource functions, we identified several matters related to payroll processing, including: a) incompatible access rights to payroll software applications that would allow for adequate segregation of duties; b) inactive employees who were not removed from the payroll master file; c) significant number of manual steps required to process payroll; and d) timeliness of employee timesheets being received. This finding was included in our 2011 and 2010 Schedule of Findings.

**Cause:** In addition to processing controls and procedures in the payroll area are not required to be reviewed and updated on a periodic basis, the current payroll software has significant inherent limitations which limits security and requires additional manual steps to process payroll.

**Effect:** The lack of proper internal control procedures, segregation of incompatible duties and manual processes makes the District more vulnerable to the possibility of fraud and material misstatement.

**Recommendation:** It is our understanding that the District personnel reviewed each of the areas identified above to ensure that the appropriate corrective action was implemented in the new Ceridian Payroll System. We also recommend to verify that processes were successfully implemented; The School District's internal auditors' perform an internal audit of the new Ceridian Payroll System to determine that all steps noted above have been properly addressed.

**District's Response:** The School District agrees with the recommendation and have reviewed user access rights within the new payroll systems ensuring proper segregation of incompatible duties.

**2012-4 Finding -**

**Criteria:** That all costs reported as part of a Federal Award must be incurred in the proper award period.

**YONKERS PUBLIC SCHOOLS**  
(a component unit of the City of Yonkers, New York)

**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2012 (Continued)**

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**Condition:** In our testing of journal entries provided by The School District to accrue expenditures charged to federal awards, we noted that certain expenditures included in the journal entries tested were expenses incurred subsequent to June 30, 2012.

**Cause:** The lack of proper investigation performed by the person making the entry, along with no thorough review completed by senior management of the Finance Department.

**2012-4 Finding (continued)**

**Effect:** Since the error was corrected prior to finalization of the financial statements there was no effect. In addition, the expenses noted were incurred in the proper award period and properly included in the grant costs submitted.

**Recommendation:** We recommend that prior to posting a journal entry to accrue expenses at the end of the fiscal or grant period, that all supporting documentation be reviewed and attached to the journal entry prior to approval of senior management.

**District's Response:** We agree with the finding and are in the process of developing processes that include the recommendation noted.

**EXHIBIT**  
**N**

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**From:** "Slack, Suzanne" <SSlack@scsd.us>  
**To:** <JBracchitta@yonkerspublicschools.org>  
**Sent:** Tuesday, April 10, 2012 3:15 PM  
**Subject:** Chapter One Accrual  
Happy Budget Season Joe!!

Hope all is well with you & the Yonkers crew. We are in the midst of budget wonder and I am recommending to our Superintendent that we for the first time that we exercise the chapter one accrual option. Since you have been using this for some time I wondered if you might send me your resolution and mayoral approval from a year past as an example and the actual accounting transactions that you book at year end to recognize the accrual. Also I was wondering if you could recommend someone at your CPA firm that I could talk to for guidance because none of our local firms have any experience with the Chapter One Accrual.

Many thanks – see you in Albany sometime soon!

*Suzanne Slack*  
*Chief Financial Officer*

Office Location:

Syracuse City School District  
725 Harrison Street  
Syracuse, New York 13210  
office (315)435-4826  
fax (315)435-6321  
cell (315)251-5107  
sslack@scsd.us

Mailing Address:

Syracuse City School District  
1025 Erie Blvd. West  
Syracuse, NY 13204-2749



**EXHIBIT**  
**O**

AGREEMENT made this 3<sup>rd</sup> day of February, 2014 by and between

**THE CITY OF YONKERS**, having an office and place of business at: City Hall, Yonkers, New York 10701 (hereinafter referred to as the "City"),

and

**THE BOARD OF EDUCATION OF THE CITY OF YONKERS**, having an office and place of business at: One Larkin Center, Yonkers, New York 10701 (hereinafter the "BOE").

**WHEREAS**, the BOE has adopted a Resolution authorizing the BOE to utilize the services of the City for the purpose of performing interim consulting on the financial management functions as more fully described herein.

**NOW, THEREFORE**, in consideration of the terms and conditions contained herein, the parties agree as follows:

1. **Services:** The City shall furnish interim, consulting on general financial management services as more fully described in the Scope of Services, which is attached hereto and made a part hereof as Schedule "A". All services rendered and work performed by the City shall be under the direction and subject to the approval of the Commissioner of Finance of the City of Yonkers, subject to the limitations outlined in Schedule A, hereto. Specifically, the implementation of any substantive recommendations and/or State-mandated budgetary actions shall require the prior approval of the President of the BOE, or his duly authorized designee. The BOE shall provide any and all resources, materials, documents and any information of any kind to assist the City in undertaking its duties and responsibilities pursuant to this agreement, and as may be required by relevant local, State and/or federal laws. The BOE shall also reimburse the City for any actual costs, exclusive of salaries, expended.

2. **Term:** The term of this Agreement shall be from the date of execution hereof through June 30, 2014, unless sooner terminated as hereinafter provided.

3. **Indemnification & Defense:** The BOE agrees:

(a) that except for the amount, if any, of damage contributed to, caused by or resulting from the negligence of the City, the BOE shall indemnify and hold harmless the City, its officers, employees and agents from and against any and all liability, damage, claims, demands, costs, judgments, fees, attorney's fees or loss arising directly or indirectly out of the errors, omissions or unlawful or negligent acts hereunder by the BOE or third parties under the direction or control of the BOE; and

(b) to provide defense for and defend, at its sole expense, such claims, demands or causes of action directly or indirectly arising out of the Agreement, as described in subsection (a) above, and to bear all other costs and expenses related thereto.

4. **Termination:** This Agreement may be terminated at any time by mutual agreement of the parties or upon thirty (30) days written notice by one party to the other party.

5. **Assignment & Subcontracting:** Any purported delegation of duties or assignment of rights under this Agreement without prior express written consent of the City is void.

6. **Compliance with Law:** In executing their respective responsibilities under this Agreement, the City and the BOE shall comply with all federal, state and local laws, rules and regulations.

7. **No Discrimination:** The City and the BOE shall not discriminate against any person on the basis of age, race, creed, color national origin, sex, disability, genetic predisposition or carrier status, or marital status in the performance of this Agreement.

8. **Notices:** All notices of any nature referred to in this Agreement shall be in writing and sent by registered or certified mail postage pre-paid, to the respective addresses set forth below or the such other addresses as the respective parties hereto may designate in writing:

To the City:

Commissioner  
Department of Finance  
City Hall, Room 210  
40 South Broadway  
Yonkers, New York 10701

with a copy to:

Corporation Counsel  
City of Yonkers  
City Hall, Room 300  
40 South Broadway  
Yonkers, New York 10701

to the BOE:

President  
Board of Education  
One Larkin Plaza  
Yonkers, New York 10701

Superintendent of Schools  
Board of Education  
One Larking Plaza  
Yonkers, New York 10701

or to such other addresses as either party may designate by notice.

9. **No Agency:** Nothing herein contained shall be construed to create a co-partnership between the City and the BOE or to constitute either party as the agent of the other. Nor shall this agreement be construed as an assignment of the fiduciary duties of the BOE to the City, pursuant to NYS Law.

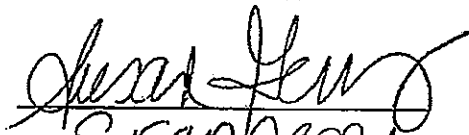
10. **Entire Agreement:** This Agreement constitutes the entire Agreement between the parties with respect to the subject matter hereof and shall supersede all previous negotiations, commitments and writings. It shall not be released, discharged, changed or modified except by an instrument in writing signed by a duly authorized representative of each of the parties.

11. **Counterparts:** This Agreement may be executed simultaneously in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

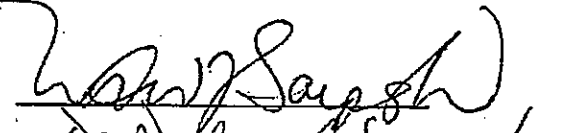
12. **Governing Law:** This Agreement shall be construed and enforced in accordance with the laws of the State of New York. In addition, the parties hereby agree that for any cause of action arising out of this Agreement shall be brought in the County of Westchester.

IN WITNESS WHEREOF, the City and the BOE have caused this Agreement to executed.

**THE CITY OF YONKERS**

By:   
Name: Susan Gerny  
Title: Deputy Mayor

**BOARD OF EDUCATION OF THE CITY OF YONKERS**

By:   
Name: Dr. Nader Sayegh  
Title: President YCS B&E

## ***Schedule A***

### **Scope of Work**

The City Department of Finance will provide the following general financial management services to the BOE:

- Subject to approval by the BOE board of trustees, develop and recommend for implementation a cost benefit analysis of all BOE activities;
- Review financial processes and departmental operations and make recommendations designed to improve efficiency and effectiveness in accordance with generally acceptable financial practices applicable to school districts in the State of New York;
- Monitor revenue and expense budgets;
- Subject to approval by the BOE board of trustees, develop and/or implement the BOE's annual budget;
- Subject to approval by the BOE board of trustees, develop and/or implement the BOE's four year plan; and
- Recommend, for approval by the BOE, any functions necessary to carry out the interim fiscal obligations of the BOE as may be necessary and appropriate.
- Provide monthly reports to the Board of Education and the Mayor of the City of Yonkers on or about the first day of each month in which this agreement is in effect, outlining the progress of the City Department of Finance's efforts in connection with this scope of work, as well as regular progress updates at the request of the Board of Education.